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Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to testify on GAO's fiscal year 1997 budget request.

This year we celebrate the agency's 75th anniversary. While GAO's structure and operations have evolved over the years, its key role in helping the Congress in its legislative oversight responsibilities remains unchanged.

We see our mission as seeking to achieve honest, efficient management and full accountability throughout government. To accomplish this mission, we are prepared to follow the federal dollar wherever it goes and to evaluate the efficiency and effectiveness of federal programs.

During this past year, GAO has again demonstrated its high value to the Congress and the American taxpayer. Since the Congress convened last January, House and Senate committees have asked us to testify nearly 250 times on issues ranging from budget savings, to fraud, waste and abuse, to proposals for reengineering the federal government. During fiscal year 1995, legislative and executive actions based on our recommendations have led to over \$15 billion in measurable financial benefits, as well as numerous improvements to agency programs and processes. GAO's expertise across the full range of government programs and activities and its extensive past and ongoing audit and evaluation work have allowed the agency to respond quickly to changing congressional needs and priorities.

To meet the challenges of the upcoming year, the Congress will continue to turn to GAO for accurate information and unbiased analyses. GAO is in a unique position to help the Congress as it strives to cut the deficit and reexamine the objectives and structures of federal programs and initiatives. Committees in both houses have requested that GAO do work vital to their legislative agendas. Moreover, new and continuing statutory requirements necessitate that GAO continue to play a key role in improving government accountability and management.

GAO assists the Congress with a staff level of about 3,700 full time equivalent (FTE) positions for the current fiscal year. This level is down from 5,325 employees in 1992 and is GAO's lowest staffing level since before World War II. Although agencies audited by GAO have grown several times over as the federal government has grown in size and complexity, GAO has been able to fulfill its added requirements and responsibilities despite fewer staff. We have fulfilled our expanding mission by continually

working to increase productivity, take advantage of modern technology, and improve our skills and expertise.

FY 1997 Budget Request

GAO is committed to being a model government agency of the future—smaller and at the same time achieving greater efficiencies through effectively using technology and modern management principles. We have worked with this committee to develop strategies for reducing the size of GAO. Last year, the Congress directed a 25 percent reduction in funding, 15 percent to be accomplished in fiscal year 1996 and an additional 10 percent in fiscal year 1997.

GAO's total budget authority for fiscal year 1996 is \$383 million, 15 percent below the fiscal year 1995 level, and we are continuing to implement initiatives in response to Congress' direction to further reduce our staff level for fiscal year 1997. We have conducted a separation incentive program and an early retirement program, consolidated some of our issue areas at headquarters, closed several regional offices, and are in the process of implementing a reduction-in-force of our administrative and support staff. We are also in the process of privatizing our supply function and we are looking for other opportunities to use contract assistance. These actions will reduce the agency by over 30 percent from our 1992 level.

However, one serious problem has emerged. There is a great risk that GAO will not have adequate resources in some key areas, particularly in financial accounting and information systems management, which is essential to carry out its Chief Financial Officers Act responsibilities and to support congressional efforts to reform the federal government's financial management systems. Staff skilled in these critical areas have left GAO in disproportionate numbers. Although we have reassigned remaining staff to the extent possible, a shortage of expertise in these disciplines remains. This problem is exacerbated because we do not have the funds necessary to acquire this expertise from other sources. Also, our program audit areas have suffered losses in key expertise and will require attention at some point.

Therefore, I am presenting a fiscal year 1997 budget for the Committee's consideration that will enable GAO to effectively carry out its mission while still reducing its budget below the fiscal year 1996 level. I am sensitive to last year's commitment to reduce GAO's budget 15 percent in fiscal year 1996 and an additional 10 percent in fiscal year 1997. I am also sensitive to

the fact that the Committee wants to achieve that objective without seriously damaging GAO's ability to perform its core mission. My fiscal year 1997 budget submission is an attempt to properly balance these two important objectives. This request reflects a good faith effort to continue to reduce the size of GAO while allowing us to replace staff with highly specialized skills that are essential to the performance of mission critical work. GAO's request of \$378 million for fiscal year 1997 provides about \$8 million to pay for badly needed financial accounting and information management expertise while also reflecting mandatory increases in personnel costs. Overall, this request represents an 8 percent reduction in budget authority from the fiscal year 1996 budget when adjusted for mandatory increases in personnel costs.

GAO's Workload and Accomplishments

During this past year, GAO has maintained its productivity at high levels. We produced 1,052 written reports to the Congress, congressional committees, and individual members as well as 104 reports to federal agency officials. We gave hundreds of congressional briefings; 72 GAO executives testified a total of 246 times at the request of the Congress on issues of the greatest urgency; and we issued over 3,300 legal decisions.

We produced reports that address issues of national importance and contribute to congressional oversight and debate. I would like to discuss our work from this past year as well as the focus of our current and future work within the framework of our strategic plan entitled, Following the Federal Dollar, which identifies our five highest priority issues according to congressional expectations.

Promoting a More Efficient and Cost-Effective Government

Year after year, our work has led to legislative and executive actions—budget reductions, cost-avoidance measures, appropriation deferrals, and revenue collections—that have provided financial savings and other benefits in the billions of dollars. In fiscal year 1995 alone, these financial benefits totaled over \$15.8 billion—a return of more than \$35 for every dollar appropriated to GAO. Because of the importance of reducing the federal budget deficit, we keep financial benefits at the forefront of our work.

We are committed not only to making government cost less, but also to making it operate more efficiently and effectively. While downsizing is one way to move toward this goal, it must be carefully planned and implemented—a process that demands the kind of objective and

comprehensive information GAO is uniquely equipped to gather and analyze. We have, for example, monitored the closing of military bases, studied defense force structure in light of decisions to reduce the size of the U.S. armed forces, tracked the results of previous downsizing efforts at the Social Security Administration and other agencies, and studied downsizing approaches taken by private organizations.

We have several audits and evaluations either under way or contemplated for the coming months that could yield significant savings for the federal government. For example, GAO will be identifying "best practices" to help streamline defense acquisition, procurement, finance, inventory management, maintenance and repair, and transportation; identifying more cost-effective ways to clean up the nation's nuclear weapons complex; and evaluating proposals to achieve major reorganizations of the Federal Aviation Administration and Amtrak.

Exposing Fraud, Waste, Abuse, and Mismanagement

After the scandal at the Department of Housing and Urban Development in the late 1980s and the "Ill Wind" scandal at the Department of Defense, we began a widely publicized effort to identify and monitor programs at risk for fraud, waste, abuse, or mismanagement. Through scores of studies and two special series of "high risk" reports—the most recent of which appeared in February 1995—we have highlighted areas in which major improvements are needed to protect the taxpayers' interests. Among our priorities have been to assess payment practices under Medicare, where losses could run as high as 10 percent of the \$167 billion spent annually; to minimize defaults in federal loan programs, such as student assistance and the Farmers Home Administration where loss exposure runs into the billions of dollars; and to monitor defense programs in which billions of dollars have been spent on unneeded inventory and millions of dollars have been incorrectly paid to defense contractors.

Our emphasis on high risk programs is paying off. The most recent high risk reports confirmed that progress had been made in attacking the root causes of problems at 15 of the 18 programs we had identified through fiscal year 1994. Five of the 18 programs—the Bank Insurance Fund, the Resolution Trust Corporation, the Pension Benefit Guaranty Corporation, the State Department's management of overseas property, and the Federal Transit Administration's grant management program—are now on sound enough footing that we have removed their high risk designations. In fiscal year 1995, we designated seven new high risk areas in hopes that

increased focus afforded these areas will yield progress among them as well.

Targeting Spending Reductions to Reduce the Deficit

As the Congress works to balance the federal budget, one of its major challenges will be to cut federal spending over the next 6 years by a total of \$1 trillion or more. Every year, we work with the congressional appropriations committees to find potential savings in the administration's proposed budget; usually, we identify savings as much as \$1 billion. We also work with the various budget and authorizing committees to find opportunities to save money by modifying, limiting, or abolishing entire programs.

For example, we are looking at ways to reduce the deficit in the \$160 billion Medicare program. We have identified savings that can be realized by better targeting federal payments to medically underserved areas. We have recommended changes to the collection of payments for those instances where the government pays first but should pay second for Medicare patients who have other health insurance coverage. And we have identified problems with the payment rates for reimbursements to risk-contract HMOs that provide services to Medicare beneficiaries.

Due to continuing rapid inflation in health care costs, major changes are underway in the delivery of health services—most notably the emergence of managed care which holds promise for better cost control in the future. We have worked to identify ways for the Medicare and Medicaid systems to more effectively use managed care's potential, such as better rate setting mechanisms for Medicare HMOs to avoid overpayments and better oversight of managed care systems to protect beneficiaries from inappropriate denial of care and federal dollars from payment abuses.

We have underway a number of reviews at the Social Security Administration to identify opportunities for program savings. Several reviews target fraud, waste and abuse in SSA's Supplemental Security Income Program which pays \$25 billion in benefits each year. We are also reviewing SSA's strategy for conducting continuing disability reviews to identify whether process improvements would allow the agency to more effectively terminate benefits for individuals who no longer qualify to receive them.

In October 1995, we issued a report raising concerns with HUD's mortgage assignment program, which was created in 1959 to help mortgagors who

have defaulted on HUD-insured loans avoid foreclosure and retain their homes by providing them with financial relief. However, this program has not reduced FHA's foreclosure losses; instead, losses have exceeded those that would have been incurred if loans had gone immediately to foreclosure without assignment. We have identified several options that are available to the Congress to reduce the losses incurred by this program.

We also have under way, or else soon will begin, other efforts to identify ways to reduce federal expenditures. These efforts include reviewing the need for such Department of Energy programs as the civilian nuclear waste program, the power marketing administrations, and the Strategic Petroleum Reserve; identifying agricultural commodity programs in which savings could be achieved; and identifying discretionary programs at the Department of Health and Human Services that are ineffective or whose overhead expenses run too high.

Identifying Trends With Fiscal, Budgetary, or Oversight Consequences for the Government

Numerous GAO reports have alerted the Congress and other policymakers to crises in the making—from an outdated federal food inspection system to the crumbling financial condition of the District of Columbia, from cost overruns in major weapon systems to the deterioration of nuclear weapons facilities. We believe that one of our priorities must always be to identify trends that could lead to major problems for the government. For example, the financial services industry is growing larger and more complex while the regulatory structure to protect investors and depositors has many gaps. Although health care costs continue to grow at a rate faster than inflation the delivery of health care services is rapidly changing, the implications of these changes for the financially pressed Medicare and Medicaid systems are unclear. Lastly, the Department of Energy's program to store and dispose of spent radioactive fuel from civilian nuclear power plants may be reaching a crisis. GAO is committed to helping the Congress face the challenge of deciding how to deal with this growing problem.

Improving Accountability Through Financial and Information Management

For more than a decade, GAO has reported to the Congress that federal agencies were lacking even minimally acceptable accounting and financial management systems. Tens of billions of dollars could not be accounted for, agency books could not be balanced, and widespread mismanagement was wasting billions of dollars every year. Recognizing the need for better financial management in the federal government, the Congress passed, on

a bipartisan basis, the Chief Financial Officers Act (CFO) of 1990. This law requires major federal departments and agencies to prepare financial statements and to undergo annual financial audits.

We have a major responsibility to monitor agencies' progress under the CFO act. This year, the 24 largest federal departments and agencies are required to produce auditable financial statements. Beginning in 1997, we will also have the job of auditing the annual consolidated financial reports of the U.S. government, which are intended to show the Congress and American taxpayers the status of federal finances. It is crucial that CFO Act implementation stay on schedule. Likewise, GAO must maintain the ability to develop comprehensive, reliable information that congressional leaders rely on to reduce spending and ensure accountability among federal departments and agencies. Moreover, this information will contribute to the effective implementation of the Government Performance and Results Act of 1993, which makes performance measurement a key element of federal program management.

We have also put considerable emphasis on the need to improve information resource management (IRM). While, the federal government spends about \$25 billion each year on computers and information technology, it ought to be getting far greater value than it has been for so large an investment. In 1994, we produced a widely esteemed report on how 11 basic principles drawn from leading public and private sector organizations could be used in the federal government's IRM programs. The Congress has already endorsed many of these "best practices" in its reauthorization of the Paperwork Reduction Act.

Operational Improvements

As I mentioned earlier, we have made many operational improvements over the past several years that have enabled us to maintain our productivity levels and the high quality of our work even though our resources have been decreasing. I'd like to update the Committee on these efforts.

Capitalizing on Information Resources Technology

Over the past several years, introduction of the latest technology has helped our staff by giving them ready access to numerous sources of information that are critical to successfully and efficiently completing assignments. This technology has enabled staff to perform more indepth analyses and do them much more quickly with automated tools. In addition, the use of local area networks and the wide area network has

greatly enhanced communications, which is essential to the timely and successful completion of our work.

During this past year, GAO has continued its efforts to further develop its automated information resources to increase staff access to information. We have extended our data network to all locations and we will complete the installation of the Data Collection and Analysis (DCA) application by mid-April. This application will greatly enhance our ability to perform our mission effectively with reduced resources. We have identified the requirements for connecting our documents database and CD-ROM research networks to the data network and have started implementation. We have upgraded and integrated video conferencing and voice mail with our operations, and we have begun publishing GAO products on the Internet through GPO's wide Area Information Server. We are also using the network to efficiently provide administrative information to agency staff. This has been done in the context of modernizing our facilities while removing asbestos from the GAO building. This will provide an overall work environment that will maximize the efficiency of our work processes.

Re-Engineering Job Processes

Efficiency gains have also resulted from our quality management efforts over the past several years. We have identified and are making several improvements to our work processes by using this management approach. For example, we have made significant progress in reducing rework and cycle time for jobs and improving on-time delivery of reports. We are implementing, on a GAO-wide basis, a standardized audit and evaluation process that incorporates the best practices from throughout GAO. This process, which should be fully operational by mid-summer 1996, incorporates new technology and automated tools to ensure optimal responsiveness in every job as well as enhance quality. In addition, we are finalizing plans for a cost estimation and costing system that should be operational later this fiscal year. This system will enable us to more accurately assess the estimated and actual costs of jobs. Our goal is to reduce the costs of our audit and evaluation jobs and the time it takes to complete them.

In fiscal year 1994, GAO formally adopted a long range plan to significantly improve its operations by using the principles of quality management. One of these principles is to integrate quality improvement into the strategic and day-to-day management of the organization. This past year, GAO developed and implemented its strategic plan. This plan sets forth the critical mission-related work GAO needs to do to respond to congressional

priorities as well as the operational changes GAO needs to make to improve quality and timeliness, reduce cost, and increase customer satisfaction.

Conclusion

These are challenging times for GAO. We must continue to find ways of doing a good job even better—and doing it faster, at less cost, and with fewer people. Over the past several years, we have worked with the Congress to reduce GAO's resources because we recognize that we need to take our share of the reduction as measures are taken to balance the federal budget. Although we have been very successful in reducing our resource levels while maintaining a high level of productivity and keeping the quality of our work high, we face a major effort in fiscal year 1997. While the Chief Financial Officers' Act mandates that GAO conduct a consolidated audit of the executive branch financial statements, we do not have sufficient technical expertise to successfully undertake this new requirement. Therefore, we request your support in the critical areas I have mentioned.